Headline Series

Point 4 and the World Economy

J. B. Condliffe

Harold H. Hutcheson

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POINT FOUR
and the World Economy

Point Four: Economic Development

J. B. Condliffe

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The Authors

J. B. CONDLIFFE: Professor of Economics and Director of the Teaching Institute of Economics at the University of California at Berkeley. During the academic year 1948-49, the institute, which is supported by a grant from the Alfred P. Sloan Foundation, conducted a seminar on economic development. Professor Condliffe's article is a report summarizing the papers prepared by graduate students who were members of that seminar.

HAROLD H. HUTCHESON: Professor of Economics at Virginia Military Institute. A former member of the Foreign Policy Association's research staff, Professor Hutcheson is the author of three *Foreign Policy Reports* on the subject of economic development—"Problems of the Underdeveloped Countries—I and II" and "Government and Capital in Point Four."

Point Four: Economic Development

by J. B. Condliffe

1. Freedom and Hunger

ANY DISCUSSION of international questions is now likely to end, if it doesn't begin, with Point Four of President Truman's inaugural address, the speech in which he called for a "bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." It is now difficult to confine political questions within their old boundaries. Diplomacy, the old-school *haute politique,* has lost its tie. The economic unbalance of our world becomes too obvious to ignore. All the major disputes—Iran, Greece, Indonesia, Korea, Israel and now China—keep occurring in the no-man's land where the giant powers of our time are cautiously testing each other's strength. The people of most of these areas are not politically vocal, but they are hungry. To alleviate their unrest and ultimately win their allegiance, very direct economic means must be used.

The national and regional troubles that vex us have been gravely aggravated by the destruction of the international economy. We are learning by bitter experience the truth expressed by an American sage, Charles Horton Cooley, when he wrote that "the actual interdependence of human life, of persons,

classes, nations, far surpasses our awareness of it, and still more our arrangements for cooperation." Politically the world is divided, but economically it has a unity of interdependence. Failure to restore multilateral trade, to eliminate the short circuits in the balancing of international payments, imperils the best-planned programs of national and regional recovery.

The best chance now to get trade going again is to tackle the vast problem of putting underdeveloped countries into order. More truly than after the Napoleonic Wars, a new world must be called into existence to redress the balance of the old. And hence we all talk of economic development. Everyone sees the end, but the trick is to invent the means.

Political Freedom, Economic Competence

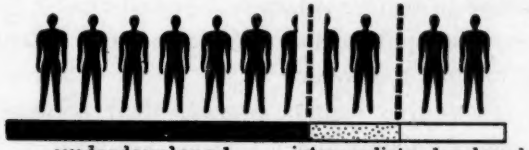
What constitutes economic development? Why should productivity and therefore living levels vary so greatly from country to country? Is this variation the result of climate, of unequally distributed natural resources, of capital accumulation or of some inherent superiority in the population of the more productive areas? Or is it mainly the result of failure to make effective use of the resources possessed by the industrially backward peoples? Can anything be done to level up these discrepancies in productive capacity?

How to start? Is it a question mainly of lending, or giving, the poorer peoples the material equipment necessary to produce more food, clothing and manufactured goods? Can they handle such equipment? Would they set aside from their increased production the capital necessary to raise their living levels still further? Or would this increase be swallowed up in keeping more millions of underfed people barely alive?

These questions concern the United States as well as the peoples who live in the countries of retarded economic development. They also concern the peoples of Western Europe who have for many centuries drawn supplements to their living levels from the

THE UNDERDEVELOPED AREAS

Two-thirds of world population live in the underdeveloped areas



Each figure represents 10% of world population

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services they rendered as bankers, traders, manufacturers and governors of vast empires. The plight of Western Europe after World War II invites comparison with that of Vienna after World War I. The gracious city that was equipped to act as the head office and governing center for an empire of 50 odd million, was overpopulated, overbuilt and overequipped when it lost its empire and had to serve only 6 million people in Austria proper. The countries of Western Europe have lost effective control over most of their empires. Belgium, which retains the rich Congo, has been least affected by the post-war reconstruction crises.

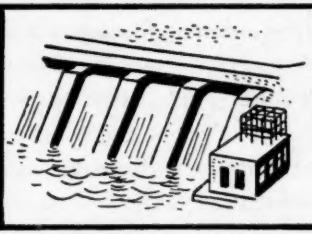
But it should not be forgotten that the economic productivity of the underdeveloped countries, while important to Western Europe and to the United States, is even more important to the people who live in them. Indians, Indonesians and Africans are not pawns to be manipulated in the interest of the more effectively organized Western world. Whatever may be thought of the merits and demerits of colonial tutelage, empire has become an anachronism. Not all the dependent peoples are ready for immediate and complete independence. But all are moving rapidly towards that goal, which is not incompatible—as both India and the Philippines have shown—with close association between the highly industrialized countries and those of newly-acquired nationhood. Even in Africa there is a great surge of nationalism.

Political self-government, however, is not enough. The driving force behind nationalist movements is economic discontent. The desire to be free is largely a protest against foreign control over economic policy. It springs from a determination to direct policy towards the welfare of the impoverished peoples. Without freedom they cannot organize their economic activity to serve their own ends; but if they do not use their freedom effectively in the economic sphere, they will lose it again to some form of despotism, native or foreign. Economic competence is the essential complement of political liberty.

Economic Development and Freedom

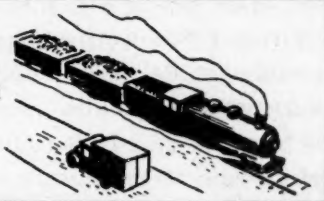
Let us be clear, therefore, as to what is involved in economic development. Much romantic nonsense has been written about spiritual values as distinct from material progress. It is true that morals do not depend upon plumbing. Wealth does not ensure a high level of intellectual activity. But it would be difficult to convince a poor peasant that more food, better housing, improved sanitation and medical care might imperil his culture. Those who deprecate material progress and cherish mystical

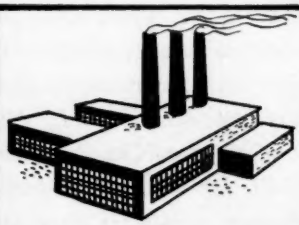
WHAT IS ECONOMIC DEVELOPMENT?



A DAM : In many parts of the world a dam can make barren land green and at the same time bring hydro-electric power to primitive economies

A RAILROAD : There are still resources ··· mineral deposits grazing lands etc ···undeveloped for want of transportation





A FACTORY : The advantages ··· and disadvantages ···of industrialization are unevenly distributed Most countries dream of raising their production of manufactured goods, and among the many paper plans some will emerge as sound economic ventures

A DOCTOR : Widespread disease, not only bad in itself, cuts down industrial and agricultural efficiency in great areas of the world

A BOOK : Millions of the world's farmers and workers carry out their tasks with time-worn, inefficient methods simply because they know no other way. They need "know-how," teachers — in short, education of both a technical and general nature.

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theories of esoteric culture do so from comfortable and well-fed havens of privilege. Those who must go hungry and watch their children die, whose vitality is sapped by endemic disease, whose lives are consumed by anxiety and despair, do not have leisure for such nonsense. History is on their side. The greatest periods of human achievement have been periods of economic progress. Spiritual and cultural values, political liberties and artistic creation cannot be realized, even by privileged minorities, when the mass of the people live in misery.

The greatness of Athens and of Florence came when they were centers of trade. Tudor England, which Erasmus described as "a nest of singing birds," was a prosperous community which in due time flowered in the Elizabethan renascence.

Economic development is correlated with political liberty and with cultural achievement. How to touch the spring that sets in motion the energies of self-improvement is the secret to be uncovered. Though abundant resources and accumulated capital equipment are necessary to sustain high living levels, they are the result rather than the cause of economic productivity. In any case they must be continuously maintained and renewed. The power to create wealth is vastly more important than the wealth itself, and this power rests in human capacities and skills.

Cumulative Development

From time to time a community breaks out of the pattern of the past and starts a cumulative process of economic development. This development may prove abortive or be diverted into destructive channels, or into the enrichment of a new privileged oligarchy. Only when the impulse to development spreads downwards over the mass of the people is it self-perpetuating.

More is involved than mere technical efficiency. Economic development entails modernization rather than industrialization. It constitutes a social rather than an industrial revolution. If the peoples whose economic development has been retarded are

to handle the equipment of modern machine industry and agriculture, their minds must be free. Unless they are able to handle it, equipment cannot help them much. If the executive planning and technical direction remain in foreign hands, however efficient and benign, the charge of capitalist enslavement will be hurled against the foreign enterprise.

The only effective basis for autonomous economic development, as distinct from imperialist enterprise, is social reform and education in the developing country. Loans for the purchase of equipment may be needed; but they are not the most essential factor. Direct investment by the private industry operating in the more developed countries can be even more effective, but only if it acts as a carrier of ideas. Somehow or other the scientific aptitudes and the economic faith of the Western world must be conveyed to peoples who now cling desperately to tradition because they have no faith that their misery can be alleviated by any departure from it. These aptitudes and this faith entail removal of the obstacles presented to economic development by archaic land tenures, outworn religious dogma, privilege and social stratification.

Dependence of Developed Peoples

The welfare of the developed peoples is much more dependent upon that of the undeveloped peoples than many of them are ready to admit. They cannot take refuge in the philosophy of the Chinese Emperor who told the first British trading mission —just as the Industrial Revolution was getting under way—that China had no need of trade, producing as it did within its own borders everything that was needed. Even the United States, with its high level of agriculture and industry, its vast accumulations of equipment and its great wealth of natural resources, is dependent upon the trading world. It is dependent both for its prosperity and for its security. The maintenance of its characteristic free institutions is equally tied up with an expanding

economy. It is for these reasons that the United States has moved since the great depression of the thirties towards a positive policy of political and economic internationalism, and away from isolationism.

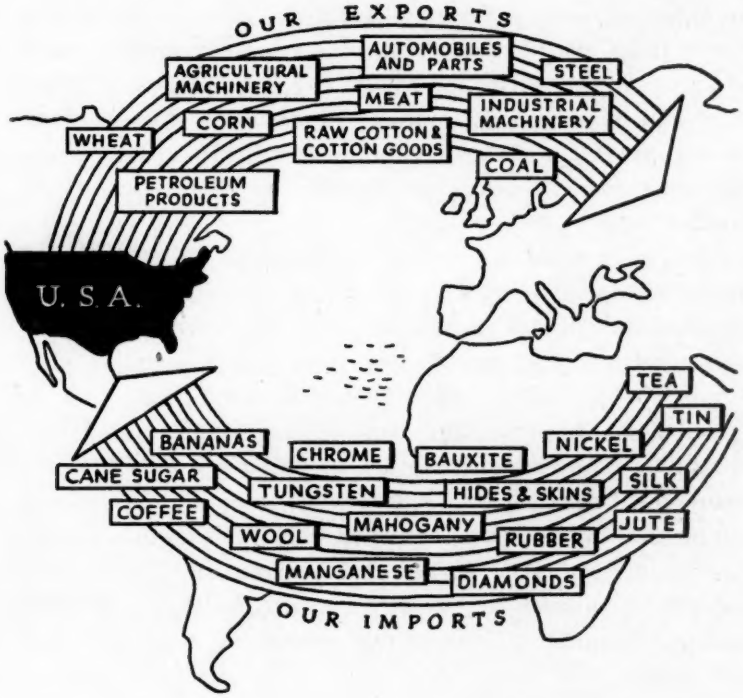
The reasons for this dependence can be stated succinctly. In the first place, rich as it is, the United States draws upon the rest of the world for a long list of materials necessary to its industry. The increasing degree to which it does so has been underlined by the Military Academy of the United States in a recent report, *Raw Materials in Peace and War,* which is rightly concerned to draw attention to the security aspects of the dwindling supplies of strategic raw materials. Industrialists, especially those concerned with the great mass production industries, have swung to the support of internationalism, largely because they have become aware of the extent to which they must now draw upon foreign sources for minerals and materials. There has been a steady trend towards exhaustion of the more readily accessible mineral deposits. Modern industry devours them at an accelerating rate. The largest remaining reserves to be drawn upon lie in the regions most in need of economic development—in the Far East, Southeast Asia, Africa and parts of Latin America.

U. S. Tooled for World Markets

Moreover, American industries are tooled up for world markets, and this is even truer of many aspects of American agriculture. While the domestic market continues to absorb the great bulk of production, there is a large surplus of exports over imports. To reduce this export volume drastically would entail a considerable dislocation of productive facilities, the domestic consequences of which could not fail to precipitate a major depression.

It may be true that a domestic program of expansion can maintain national income; but it cannot avert the necessity of drastic alterations in the structure of industrial and agricultural pro-

Wheat and machinery for tea and tungsten



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duction if export markets collapse. Ever since the great expansion of the war and post-war reconstruction period, the aggregate of national income and employment has been sustained by a large volume of exports. Whenever exports decline, prices drop sharply, surpluses accumulate and unemployment develops.

Limits of Capital Export

In such a high-income economy as the United States enjoys, the rate of saving is high, and there is a risk that the accumulations of monetary savings will outrun the attractive opportunities for profitable investment. There is a natural, but naive,

tendency to argue that this risk can be averted by a large volume of sustained capital export. The underdeveloped countries, so the argument runs, suffer from a chronic shortage of capital. Income levels and the rate of savings are low. Population tends to increase and the formation of capital barely keeps pace. What better and more obvious solution can be found than to direct the surplus savings of the already industrialized and highly productive economies towards the development of the industrially retarded areas?

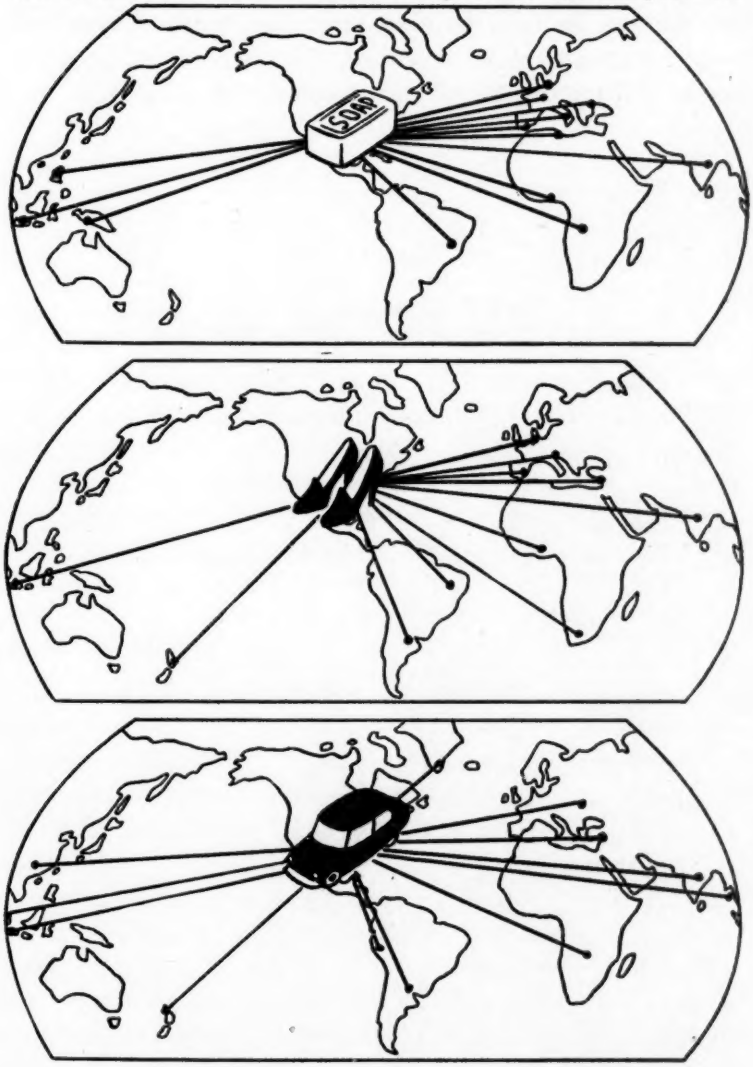
There is, of course, some truth to this argument. The United States itself was developed to its present productivity largely by the use of foreign capital, for example in the construction of railroads. Much of this capital came from British investors when Britain was the leading industrial and financial country, as the United States now is. Both borrower and lender grew rich—Britain by acquiring cheap grain as well as profitable investments, the United States by acquiring transportation facilities and markets for its expanding production. This mutually profitable partnership could be repeated between the United States and the underdeveloped countries today. A large and steady outflow of capital for constructive investment is, indeed, essential to both.

What Is Needed

But it would be dangerous to view the economic development of retarded areas primarily as a means whereby the United States might find an outlet for surplus capital and thereby avoid the necessity either of reducing its exports or of increasing its imports in order to balance its international payments. Too much of the discussion of economic development has been based on the necessity of maintaining full employment in the developed creditor country. If development abroad is to be economically productive, it must proceed slowly at first, taking due account of the potentialities as well as the needs of the borrowing coun-

Everyday things from far away places

Raw materials from all over the world go into American products



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tries. The foundations must first be laid. Care must be taken to create the social conditions in which capital may be absorbed for productive uses. Political stability, administrative efficiency, land reforms, technical training, sanitation, transportation and power facilities must be organized. Technical assistance must precede and prepare the way for large-scale investment.

2. Program for the UN

IN THE POST-WAR WORLD, with its heightened nationalisms, the economic relations between developed and underdeveloped peoples are extremely sensitive. It is no longer possible to rely entirely upon the vigorous expansive power of private enterprise and investment. Especially is this true of the preliminary stages of development—the planning of investment and the devising of technical assistance.

Record of the Past

The nineteenth century trading world was created largely by the enterprise of private traders and investors. It provided a remarkable demonstration of the possibilities of cooperation between developed industrial countries and less developed areas of potential productivity. Especially after the great outflow of British investment in the third quarter of the nineteenth century, it changed the economic map of the world. This was truly an era of expanding production, trade and employment, of increasing population and rising living levels. Where, as in the United States and the British dominions, the borrowers dealt on equal and confident terms with their creditors and possessed both the political stability and the economic skills to use capital

productively, economic development was both rapid and continuous. In due course it became self-generating. Ownership and managerial direction passed into the hands of the borrowers.

In many other countries, such for example as India, Indonesia and even China, there was also a large increase in productivity. Great towns grew up along the coast of Asia—all of them seaports because the import of private capital naturally developed into capital for producing exports. That these investments promoted the productivity of the receiving countries is obvious from the large population increases that followed. The limits of subsistence were raised but greater numbers swallowed up the increase.

Fundamental Difference

The self-governing and economically efficient new countries could use foreign capital to facilitate local enterprise. In colonial countries, on the other hand, decisions in regard to economic development were made by foreign investors and managers. However beneficent the consequences of foreign enterprise—and they were beneficent on the whole—they did not enable the industrially retarded peoples to develop their domestic markets or to acquire the technical, and especially the industrial organizing, skills of the Western world. This was a matter of degree. Where, as in India, the local population had the greatest executive opportunities, the transition to self-government has proved easiest.

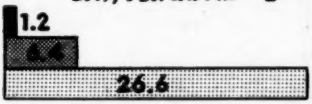
Where, as in some African communities, large-scale corporate enterprise—usually mining—drained adult males from distant villages, a double demoralization occurred. The native worker in the new mining towns created a problem, but the disintegration of the village economic and social structure was even worse. Only where the new processes of economic life supplemented and strengthened the native economy were living standards raised.

THE BASIC FACTORS

ECONOMIC

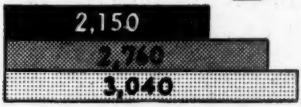
PER CAPITA INCOME ANNUAL, IN DOLLARS

MECHANICAL ENERGY HORSEPOWER HOURS, PER DAY, PER CAPITA

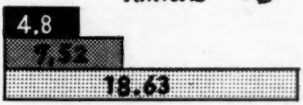


FOOD & CLOTHING

CALORIES PER CAPITA, DAILY



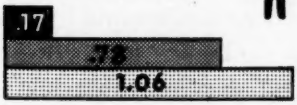
CLOTH CONSUMPTION IN POUNDS, PER CAPITA, ANNUAL



HEALTH

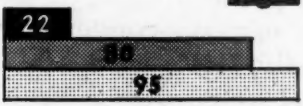
LIFE EXPECTANCY YEARS

PHYSICIANS PER 1,000 PEOPLE



EDUCATION

LITERACY % OF POPULATION



ELEMENTARY SCHOOL TEACHERS PER 1,000 PEOPLE

Based on materials prepared by Dept. of State. Figures are mostly for 1939

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It is wise, therefore, to separate the issues of technical assistance from those of capital investment. There is much to be done in preparing the conditions necessary to make investment productive. True, this involves initial expenditures. To that extent foreign financial aid must accompany technical assistance. It is not much use explaining the uses and technicalities of machinery and tools to people who lack the resources to make or buy them, and whose minds in any case are fixed on procuring food for tomorrow. One of the principal needs of the underdeveloped countries is more efficient administrative services, but their governments lack revenues. Something can be done to improve the efficiency of government, of health and sanitation programs, of educational services, and to prepare the way for larger capital projects such as transportation and power systems. But foreign advice and equipment are costly. Often it must be adapted to local conditions. Often too, the technical knowledge becomes available to a privileged class rather than to the native community as a whole.

Much has already been done. President Truman's "bold new program" did not launch the idea of economic development but gave it new impetus. Notable pioneering work has been done by medical, agricultural and technical Christian missions, by philanthropic foundations, by specially created business groups and by government departments and institutions. Space does not permit more than cursory reference to these widespread activities, the results of which well repay study. The International Missionary Council, for example, has conducted fundamental experiments in collaboration with native churches and local missionaries, in which the motivation of the human beings involved is given the emphasis it deserves but does not always get in studies of economic development.

The survey of these experiments contained in J. Merle Davis'

New Buildings on Old Foundations includes much wisdom that is applicable to wider ranges of educational and economic activity than those of the missionary movement to which it is primarily directed.

If the original inhabitants of the areas to be developed are not to be exploited or swept aside by economic development, they must participate of their own volition. It is important to realize that development, like peace, must be created in the minds of men. Many of the underdeveloped areas are inhabited by sick folk, whose minds are preyed upon by ancestral fears. Their old and established culture patterns are resistant to change. Often a sophisticated ruling class controls an inadequate machinery of government and has a vested interest in resisting changes, for example of land tenure, without which progress is impossible. The missionary studies based on actual experience in schools and universities organized to provide technical training throw a flood of light upon this aspect of the question.

Experiments in Progress

As an example of initiative organized on business lines, mention may be made of the promising experiments made in recent years by the Venezuela Basic Economy Corporation and similar corporations organized by the Rockefeller interests in other Latin-American countries. Working with local governments to survey the basic problems, and helped by the respect won by the medical activities of the Rockefeller Foundation, these corporations have demonstrated simple but effective technical means of reorganizing small but important economic undertakings.

Nor has government activity been lacking. During 1939-49 the State Department has arranged through other federal agencies for the assignment to Latin America of approximately 2,000 United States government technicians as advisers and consultants to other governments. At the same time over 2,600 technicians from Latin America were brought to the United States for train-

ing in laboratories, experiment stations and government offices. Congress appropriated funds for this work to the Secretary of State. The Department of State then transferred the funds, as needed, to other agencies through a planning device known as the Interdepartmental Committee on Scientific and Cultural Cooperation. The United States put up, on the average, only one dollar to every two contributed by the other governments which received the services.

During approximately the same period, the Office of the Co-ordinator of Inter-American Affairs (1940-46) and its successor, the Institute of Inter-American Affairs (1946-present) have operated as a government corporation to extend technical assistance, principally in the fields of health and sanitation, education and food supply, to Latin-American countries. In the war years the C.I.A.A. spent nearly $60 million on hospitals and other health improvements in those countries. In 1949 Congress extended the legislation for this institute for another five years.

Role of the United Nations

In an effort to expand such programs the United States, early in 1949, moved through the consultative machinery of the United Nations to explore the first stages of an international program. At the same time the Department of State began to explore the possibilities of integrating and expanding the programs of technical assistance already being carried out by different departments of the United States government. Similar programs, sometimes on a large scale, have been developed in recent years by other governments, notably by the British government in pursuance of the Colonial Development Act of 1940. There is a third, and most important, factor to be considered—the national programs of the underdeveloped countries themselves. In order to stimulate expansion of action that had already begun in many quarters, and to review the possibilities of integration and mutual reinforcement, the Economic and Social Council of the

Technical Assistance – Sharing 'Know-How'

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United Nations on March 4, 1949, instructed the Secretariat to prepare a comprehensive program of technical assistance, together with suggestions to finance and administer it.

Series of Programs

The report prepared by the Secretariat in consultation with the specialized agencies of the United Nations was discussed by the Economic and Social Council at its August 1949 meeting. It did not present an integrated program. Rather there was a

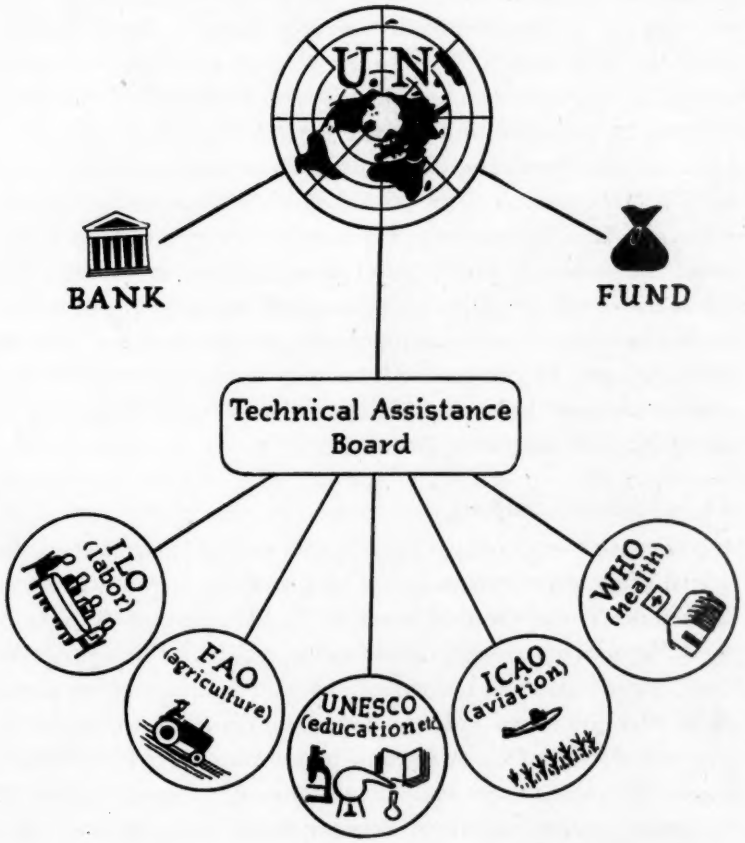
series of programs presented by the United Nations Secretariat for direct activities and for activities to be carried out by the specialized agencies—the Food and Agriculture Organization, the UN Educational, Scientific and Cultural Organization, the International Civil Aviation Organization and the World Health Organization—each of which presented its own separate program. The International Bank for Reconstruction and Development and the International Monetary Fund presented reports of their activities but did not ask additional funds. The International Refugee Organization also presented a statement, and reference was made to the International Trade Organization and the Inter-Governmental Maritime Consultative Organization, which have not yet come into existence, as well as to the regional Economic Commissions for Asia, Europe and Latin America.

Enumeration of these agencies reveals one difficulty of securing action through international machinery. The Economic and Social Council recommended to the Assembly of the United Nations a rather complicated arrangement to coordinate the activity of these various agencies—an arrangement which in effect would create another agency. It also recommended the adoption of a budget to be divided in specified proportions among the agencies concerned.

Assembly Approval

On November 16, 1949, the Assembly took favorable action upon these recommendations, and it is now necessary for national governments to appropriate their quotas of the approved budgets. The United States Congress already has before it basic authorizing legislation, with an indication that its passage will be followed by a request for appropriations, which in 1949 were estimated at $45 million, part to be spent through national agencies such as the Department of State, the Department of the Interior and the Department of Agriculture, the remainder being the United States' share of the budget proposed for the

U.N. Program for Technical Assistance



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United Nations programs.

The agreed recommendations of the Economic and Social Council to the Assembly constitute an important and productive step towards positive action. A new body, the Technical Assistance Board, is to be created by the Secretary-General and the executive heads of the specialized agencies. The Economic and

Social Council, sitting as a Technical Assistance Committee, will receive reports on the work of this board and a Technical Assistance Conference will shortly be called to determine the amounts to be contributed by member nations. Contributions from the fund which is to be established would be allocated according to a scale which in the first year would give the United Nations 23 per cent; the International Labor Organization 11 per cent; the Food and Agriculture Organization 29 per cent; UNESCO 14 per cent; the World Health Organization 22 per cent; and the International Civil Aviation Organization 1 per cent. These shares would go automatically to the agencies as far as the first $10 million contributed to the fund is concerned. Of the second $10 million, 70 per cent goes to the agencies automatically, and 30 per cent will be held in reserve. Any further contributions will also be held in reserve, subject to disposal by the Technical Assistance Board.

An International Program

This machinery, while important, is of less interest than the actual programs canvassed in the report of the Secretary-General. These reveal the kind of needs to be met and the variety of fields in which technical assistance is required. The programs are neither integrated nor comprehensive. But they cover a wide field and give some notion of the immensity of the question. No summary sketch can attempt to indicate all the varieties of research studies, training and educational programs, technical missions, advisory services, demonstration projects and other forms of assistance that might be projected in fields as diverse as agriculture, air transport, cottage industry, electric power, trade unionism and education itself. This report is a prospectus of samples, not a program. As such it is suggestive both of the vast ramifications of the problem and of the necessity to concentrate limited resources on specific, realizable projects. Some aspects of the millennium will have to be deferred for a while.

Work is already under way. A program of missions to underdeveloped countries was begun in 1948. Already a comprehensive report has been prepared on Haiti and others are in progress. In 1949 also a program of international fellowships was begun.

Prelude to Development

These United Nations activities and the projected programs of technical assistance do not constitute economic development. If agreement can be reached between governments and reasonable funds are voted, progress can be made over the next few years in surveying the possibilities of development in various areas, training selected personnel, setting up the organization for exchange of technical skills and testing out promising methods. There will be a two-way flow of foreign experts to the countries of possible development and of their nationals to foreign training centers, together with the inauguration of specific projects. Reports, projects, trained personnel and experience will accumulate. All this is very necessary, but it is not economic development. That comes when blueprints are translated into factories and farmers actually adopt contour plowing.

The International Bank for Reconstruction and Development, though part of the UN system, is sufficiently detached to warrant separate mention. The International Monetary Fund, also, in its special sphere, is constantly sending missions and lending aid to governments which are struggling to strengthen their currency systems. The International Bank stands midway between the investigatory and educational processes of the United Nations agencies and the direct large-scale investment methods of private business. It has capital to draw on for the financing of key projects. A large part of its work consists in locating and working into practical shape projects such as power and transport developments that are keys to more varied expansion of productivity. The limited ability of the Bank to finance these key projects is important, not only because it makes practical

decisions possible, but even more because it lends weight to the advice given by the Bank. By the end of October, 1949, investments amounting to some $731 million had been arranged in twelve different countries and the Bank still had about $310 million available; but its major impact had been in the use made of these funds to influence the trends of economic development.

3. The United States Role

OTHER NATIONAL AND international agencies were at work. Regional commissions of the United Nations are available in Europe, Asia and Latin America; but they have so far not shared directly in the international program. The United States is an active member of other regional agencies—the Organization of American States, the Caribbean Commission, the South Pacific Commission—which seem likely to be used as channels of technical assistance.

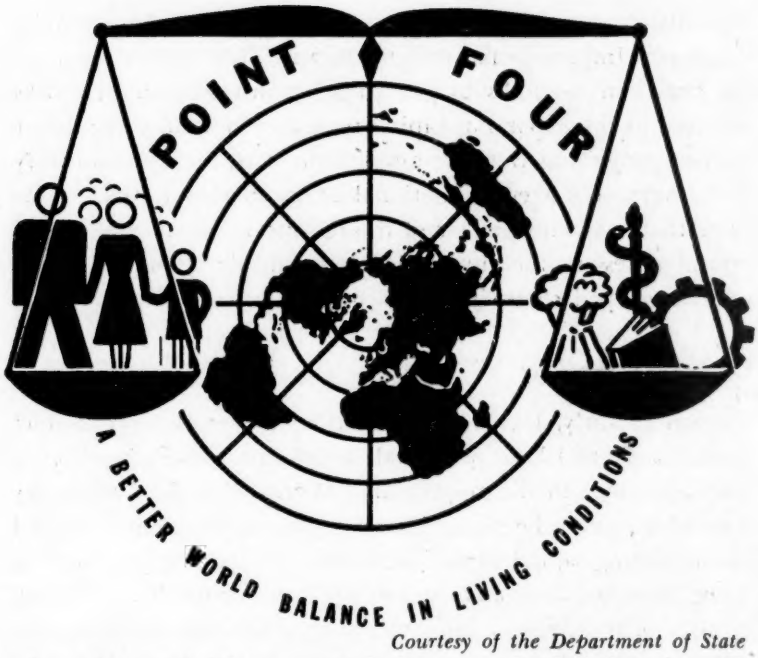
The most potent United States government agency presently at work in the field of economic development is the Export-Import Bank which has done much in Latin America. Another national agency, the Economic Cooperation Administration of the United States, works in close liaison with the Organization of European Economic Cooperation, as does the Institute for Inter-American Affairs with the Organization of American States. It is true that the projects of the ECA, like those of the International Bank until quite recently, were directed more towards reconstruction in the war-damaged countries than to economic development of industrially retarded areas. But phases of the ECA program, notably the equipment of oil refineries in Western Europe, bore directly on the prospects of economic development in other areas.

More important, the ECA has aided development in overseas territories such as Taiwan (Formosa) and Indonesia.

National governments, including the United States, have long provided a wide range of services and technical assistance for dependent areas and in some cases for countries with which they have special ties, as the United States had with many countries in Latin America. The British program of colonial development has been greatly extended since the war. The large-scale attempt to reclaim what is largely waste land in East Africa and bring it under cultivation is perhaps the most publicized (and criticized) project; but it is not as significant in the long-run as the carefully matured plans of educational, health, agricultural and other improvements now being pushed forward in colonial territories all over the world under the Colonial Development Act. There are somewhat similar French and Belgian developments. The French colonies in North Africa in particular are receiving much attention.

Barns and Barometers

The United States program of economic development, however, is different from those of the colonial powers in that it proposes to offer facilities to underdeveloped countries which are not dependent territories of the United States. These facilities are for technical advisory missions and for the training of personnel both by setting up training centers abroad and by bringing foreign nationals to the United States. The fields in which such assistance will be offered range from agriculture to weather. Many administrative departments will be called upon, and use will be made of universities, scientific institutions, industrial laboratories and industry itself. The largest single section of the budget will be devoted to agriculture, but health services, forestry, land reclamation, hydro-electric power, flood control and education also loom large. There will be provision for technical assistance in establishing industries, improving transport, statisti-



Courtesy of the Department of State

cal services and other essential elements of administrative efficiency and in organizing labor relations. What is proposed is essentially an effort to place the economic and technical experience of the United States at the disposal of less experienced peoples.

New Agencies Needed

As in the case of the international program, new agencies must be created to carry out the expanded national programs of technical assistance. The United States proposals are now before Congress. It is proposed that the Department of State coordinate and give policy guidance to activities undertaken with these funds. The interdepartmental committees responsible for formulation of these proposals will doubtless continue to function; but much of the program will be carried out by the departments

immediately concerned. An important role will be played by the Export-Import Bank, whose facilities will be drawn upon for the provision of funds to guarantee against some of the risks involved in the exports of capital necessary to finance the dollar costs of projects as they are developed. It is, however, unlikely that government agencies, national or international, can provide more than a fraction either of the technical assistance or of the capital necessary for any really large-scale development of the underdeveloped countries.

Export of Technology

Until recently, the transfer of technology was a by-product first of trade and later of capital investment. There has been a marked change in this respect since World War II. Technology now bids fair to be the primary export, accompanied by and often creating capital export in the sense of the new productivity being ploughed back and capitalized. Admittedly this is a development of past trends. No small part of the British investment which developed the temperate grasslands and tropical agriculture in the latter part of the nineteenth century was of this kind. But the difference of degree is now so great as to constitute a difference in kind. The United States in particular has become a great industrial and commercial laboratory, developing new products and processes. To acquire these processes from the United States or other developed countries, the underdeveloped countries must secure access to this new knowledge. Industrial applications of scientific knowledge are an important part of it; but the commercial organization of production and marketing is equally important. Management is an essential element of American technology.

The knowledge itself is not enough. Design of equipment is almost as important and this is accompanied by practical know-how in construction and later in operation. Controls are neces-

sary in the new processes and these involve both managerial skill and continuous testing, which oftens calls for elaborate instrumentation and laboratory analysis. An essential element in process development is the reduction of complicated techniques to routine operations capable of being handled by relatively unskilled workers; but even so, a highly trained technical staff must be available to keep these routine operations in balance and the degree of skill required in the workers has to be taught to people with very limited scientific and mechanical knowledge.

Hoes or Tractors

It may be objected that this is a rationalization of American processes unnecessary and unsuited to the needs of communities at a more primitive stage of development. It is true that the primary needs of many underdeveloped peoples are tools rather than machines, hoes rather than tractors. There is almost unlimited scope for the most elementary educational processes and the simplest forms of equipment. An important part of the Point Four program could be implemented by very simple methods. This is particularly the case in agriculture, where foreign technicians, working under the aegis of national and international agencies, have already had a very real impact on agricultural productivity, for example in Latin-American countries by such means as the introduction of hybrid corn. The Director-General of the Food and Agriculture Organization has repeatedly argued, with a wealth of illustrative detail, that very simple devices—such as introducing the Japanese hand-worked threshing machine to countries like India, where most of the rice is laboriously threshed by ancient methods—would do much to lighten labor and increase productivity. There is no doubt that this is both true and important.

But it is equally true that some of the most basic needs of these peoples are for services that can be most economically and

efficiently provided by large-scale, highly-mechanized units of production. Among these may be cited transport, power and, not less important, fertilizers.

Envied Earthworm

It is significant that among the most-envied American equipment is the earth-moving machinery without which the construction of roads, irrigation canals, dams and other essential public works is laborious and usually expensive and inefficient. There is little prospect in the near future that the underdeveloped countries can attempt to emulate the large-scale industrialization which is typically American. On the other hand they cannot go beyond a certain distance in improving their agriculture and their small-scale industries unless they can gain access to the equipment, technique and capital which are necessary for both public works and basic industries.

American industry has been active in such fields. Primarily its overseas expansion has been one of technology rather than of capital export. Some equipment has been supplied and capital goes with the technicians; but in a large proportion of cases the layout of the new equipment and its actual installation have been on a fee basis. Hundreds of instances could be cited. These fall into several categories—engineering-economic surveys, design and construction, contracts, the furnishing of machinery and in some cases of materials, the training of personnel, and usually plant management on contract over a training period.

Contracts have been made with governments, with public and private corporations and with individuals in the undeveloped countries. These contracts offer a wealth of experiment and experience in the methods by which technology can be transferred.

The planning function must be exercised with due regard to the political, economic, social and educational peculiarities of the region and these often involve subtleties that are difficult to comprehend within an engineering-economic calculus. Such

planning is naturally easiest when increased productivity—often as a result of foreign enterprise in mining or oil industries, producing a greater volume of exports—makes internationally acceptable purchasing power available.

This is the case, for example, in Saudi Arabia where the operations of the American-Arabian Oil Company themselves constitute economic development on a great scale. The operations which go to locate, produce, refine and transport oil cause an inflow of equipment. An investment program is planned to amount to $1,750 million. Much employment is created. Men and women must be trained by American experts to take over the tasks that would otherwise require highly paid foreign workmen. Schools become necessary to provide both general and technical education. Villages, hospitals, water and drainage systems must be installed. All of these constitute practical object-lessons.

Arabian Railways

But in addition the royalties from the oil production itself create a substantial fund of foreign exchange which can be used, at least in part, for economic development. The present program includes a port on the Persian Gulf (Dammam), enlargement of the port of Jidda, railroads from Jidda to Mecca and Medina, and from Dharan to Riyadh, 1,200 miles of roads, airfields, electrification of Riyadh, water wells, dams, irrigation systems and experimental farms.

Of the many examples of design and construction, mention may be made of an $83 million steel plant near Concepcion to be owned by the Chilean government and operated by an American firm on a contract basis. Another American firm is acting as consultant in the design and erection of this plant, part of the cost of these services and of the necessary equipment being defrayed from an Export-Import Bank loan of $54 million. As in the case of the Volta Redonda plant in Brazil, being erected

under similar arrangements and also operating under American management, much of the equipment was prefabricated in the United States.

Tiles, Pencils and DDT

Other examples of the export of prefabricated plants are a complete wall tile plant for Egypt, a pencil factory for India, a vegetable oil extraction plant for Brazil, a paper carton manufacturing plant for South Africa and a DDT plant for Formosa. Afghanistan has placed orders for local construction of road and dam projects, paying with dollar receipts from exports of karakul sheepskins. A newsprint mill is being erected in India, and one of the world's biggest sawmills is going up in the Cameroons under the direction of an American company, as part of the French program of colonial development.

Agricultural fertilizers will be produced in modern plants in Egypt and India by processes developed in the United States, the contracts calling for American design, supervision, training of personnel and management over a period—but with British and Dutch equipment and under local ownership. There is a large program of hydroelectric development under way in the Philippines. Aluminum sheets will be made in Chile. American airlines create subsidiaries and participate in the development of airfields all over the world.

Active prospecting for new sources of iron ore is going on in Venezuela and Nigeria. Several American firms are participating in the construction of a natural gas pipeline in Argentina. A tire and inner tube plant, made in Britain to American specifications, is going up in South Africa. French private interests have commissioned a large plywood plant for erection on the Gold Coast. A rayon plant in Israel, a sugar mill in Mexico, textile machinery for Pakistan, an electric lamp factory in Turkey and a zipper factory in India may also be cited.

Ever-Present Tractor

Machinery is exported everywhere. The American tractor is ubiquitous. Chemical patents and processes are licensed. California fish packers have joined with local interests to develop the tuna fisheries off Fiji. Various types of partnership have sprung up. Direct investment in many forms is being widely extended. The essential element in this extension is access to the new technology developed in the United States.

Technicians go with machines. Installation calls for know-how. American oil-riggers and geologists, construction engineers and other specialists are scattered all over the world. In 1948 it was estimated that the number of such technicians abroad exceeded 16,000. In the same year the number of foreign students and technicians in the United States was estimated at 50,000. Wherever American technology goes, it has some educational effect.

Conscious Organization

More and more this is consciously organized. An effort is made to train local labor and this often extends to the provision of elementary schools. Technicians and managers are trained in specific operations and company practices, sometimes on the job, often in parallel plants in the United States or elsewhere. Too much stress cannot be laid on the significance of this on-the-job training. It is specific and directly geared to employment openings. It is simultaneous with the actual development in process. When democratic institutions were developing during the nineteenth century, those who were fearful of extending the franchise were told that the exercise of the vote was the best and only adequate education for citizens. In the same way, it is obvious that the only instrument of industrial training which is adequate for a program of economic development is to be found in industry itself. No one can foresee the consequences that may

flow from this familiarity with tools, machines and complicated processes that is being gained under the competent guidance of experienced technicians by nationals of many countries which until recently were at a primitive level of agricultural and handicraft development.

4. The World Economy

SOME CAPITAL IS flowing out of the United States to develop new productivity in underdeveloped areas, but for the most part is is an accompaniment of the export of technology. There is a large amount of United States capital already invested abroad. The Department of Commerce estimated the total, as of July 1948, at $26.7 billion, of which $16 billion was private capital. By far the larger part of this was direct investment, primarily in such industries as petroleum and automobile assembly plants. How much of it represented past capital export and how much was profit ploughed back and capitalized is difficult to determine; but the probability is that most of it was capitalized profit. The volume of new private investment was running around $700 million a year.

Significant as these figures are, they are but a small fraction of the desires expressed by underdeveloped countries, of our own export surplus and of their actual needs. As to the desires, there is an abundance of national and regional development plans. Some of these represent merely wishful thinking, but there is no doubt of the need for capital. The underdeveloped countries are poor. Because they are poor their rate of saving is low. If ever they are to lift themselves out of their poverty, they will need the aid of foreign capital. This is as true of many countries

in Latin America as it is of Asia, Africa and the Middle East.

Yet the International Bank for Reconstruction and Development has not found it easy to develop specific projects for the execution of which it could feel justified in making loans. Cautiously it begins to extend its operations into the development field, as distinct from reconstruction; but the volume of its transactions is small when compared with the direct investments made by private enterprise and still smaller when compared with the amounts desired by the borrowing countries. There has been some feeling that it operates too much as a bank and is too insistent that the service of its loans shall be covered by export possibilities. But if the loans are to be repaid, they must not only be productive but must operate to increase exports.

Guarantees for Investments

It is true that the capital needs of the underdeveloped countries are such that a continuing flow of investment, or at least the reinvestment of profits, is required for at least one and probably several generations. The trading world which functioned expansively before 1914 was built up by such an outflow of capital from Britain from the 1860's onwards. There is good reason to work towards a large continuing export of capital from the United States for many years to come. The export has begun. It is largely in the form of direct investments by private corporations. The method by which private investors subscribed to foreign government loans or bought shares in foreign enterprises through the Stock Exchange has largely fallen into disuse. The unfortunate experiences of the inter-war period militate against its revival.

It is possible that some countries whose credit is good, such as the British Dominions, might find it possible to float government loans in the United States. They have never defaulted on their external obligations. But even in their case the risks, primarily of currency devaluation and of exchange default, are

estimated high enough to call for flotation charges higher than those on domestic issues in the United States. Except for limited issues in London for borrowers within the sterling area, there is a virtually complete paralysis of the nineteenth century type of foreign lending by private investors.

Role of Government Loans

Government lending may increase as the Point Four program gets under way; but it is unlikely to fill the gap effectively. There are some types of government loans that have proved both productive and financially sound. Among them are loans extended, for medium terms, with payment secured by the export of commodities which find a ready market in the lending country. One great disadvantage of such loans is that ordinarily they must be spent upon equipment in the lending country. Tied loans of this kind do not help to restore the multilateral trade so necessary in today's world.

There are those who would argue that foreign loans, with some risk of default, or even foreign gifts and subsidies, are worth while to keep the national economy of the lending country at full employment. They argue that the losses sustained by the economy as a whole from the bankruptcies and unemployment incident to a great depression far outweigh the possible losses on a bold program of foreign lending. Statistically there is no doubt of this fact; but before it can be accepted as a valid argument, it is necessary to prove that such lending will avert depression and that no better method can be found to do so.

It is significant of the disequilibrium through which we are passing that it is now proposed that the government of the creditor country shall guarantee private investors against certain risks involved in capital export. The Senate Committee on Banking and Currency on September 22. 1949, reported favorably a short bill designed to authorize the Export-Import Bank to guarantee United States investments abroad "by assuring either or both

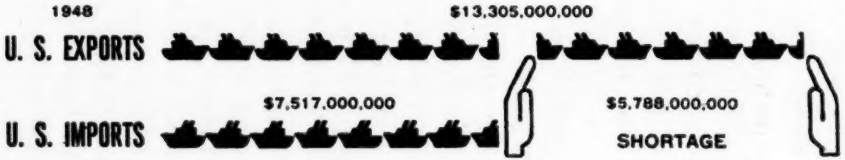
(i) the conversion into United States dollars of foreign currency derived from an investment and (ii) compensation in United States dollars for loss resulting from expropriation, confiscation or seizure."

Insurance Provisions

It was made clear in the hearings that no immediate increase was contemplated in the power of the Export-Import Bank to commit funds, $3,500 million being still the maximum for loans and guarantees outstanding at one time. It was also made clear that ordinary business risks would not be insured. The Export-Import Bank would merely be empowered to insure investors against losses arising from conversion risks and from certain arbitrary actions by foreign governments. A charge will be made against the risk involved. There are precedents for such insurance, notably in the experience regarding trade guarantees of the British Export Guarantee Department. The Export-Import Bank has funds which may usefully be earmarked for such purposes, and the Senate and House Committees had no difficulty in reporting this modest proposal favorably.

It is obvious that if capital is to flow in adequate volume from the United States for the economic development of industrially retarded areas it must originate for the most part with private enterprise and be closely associated with the export of technology possessed by United States corporations. Insurance against currency risks and expropriation may in some cases be justified and helpful; but such insurance will of necessity be limited in its amount. Capital will not flow in adequate volume until two major conditions are established. The borrowing countries must assure their creditors of reasonable conditions of investment and fair treatment. This can only be assured by commercial treaties entered into after exploring the new situation created by post-war circumstances, honestly negotiated on both sides and scrupulously observed. No treaty network, however, can revive the

LOW IMPORTS ENDANGER U. S. EXPORTS



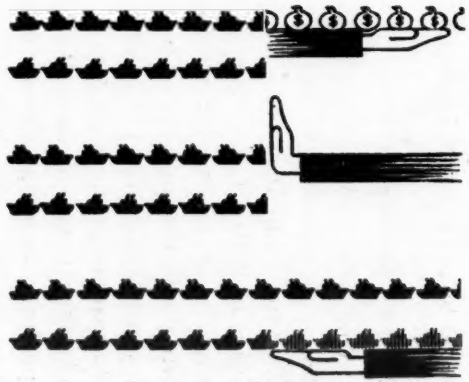
Buying less from foreign countries than we sell them prevents our customers from earning enough dollars to pay for all the goods they need from us.

ALTERNATIVES FACING THE UNITED STATES:

Loan or make gifts indefinitely to foreign countries to offset dollar shortages

Reduce exports to import level, thus injuring United States producers

Increase our imports enabling our customers to earn dollars to pay for our exports



Courtesy of the Department of State

international flow of capital unless means of repayment are assured by restoring the circuits of multilateral trade.

Need for Stability

One important obstacle to capital investment for development lies in the instability of national currencies and of the exchange rates which link them. It is no solution of this difficulty to make loans in dollars rather than in the currency of the borrowing country for fear that it may depreciate. If it does, the borrower will not be able to repay in dollars.

Since World War I the world has been plagued with violent fluctuations in the general or average level of prices, as a result of still more violent fluctuations in the prices of particular staple products. In part this has been caused by the distortion of monetary systems as a result of financing wars and of government programs between the wars. In large part, however, it is the result of the breakdown of world markets caused by trade restrictions. These causes interact.

Since World War I also there has been a series of exchange depreciations and devaluations, amounting to partial or complete repudiation of commercial contracts. In the latter part of the nineteenth century, the international gold standard, with its world-wide stability of exchange rates, was the closest approach the world had ever come to a uniform currency. Trade and investment on a world-wide scale were facilitated when enterprisers could count upon their contracts being fulfilled—when they knew that over a term of years there would be no change in exchange rates and little in the purchasing power of money.

This kind of stability in exchange rates and prices was made possible by the free working of the markets for staple commodities. Currency stability cannot be restored unless controls are progressively lifted and trade is allowed to flow more freely again. At this point there is always a chicken and egg argument among economists. Trade restrictions have been imposed because coun-

tries cannot balance their accounts without them. It is argued that the monetary systems must be brought under control, the inflation squeezed out of them and the gaps eliminated from balances of payments before competitive trade can be allowed to flow freely again. This might be a conclusive argument if there were any indications that governments would move towards setting their financial houses in order behind the shelter of trade and exchange restrictions. All the evidence is to the contrary. And in fact no progress can be made towards the elimination of gaps and ultimate stability unless both policies go hand-in-hand—domestic reorganization and progressive dismantling of trade controls.

Two Basic Conditions

These facts, distasteful as they seem to be in some quarters, need to be emphasized. The basic difficulties we face arise from the progressive disintegration of the monetary and marketing mechanisms necessary for the smooth working of the international division of labor. Unless markets are opened up again, the programs projected for economic development may turn out to be just another unworkable expedient.

There are two main reasons for this statement. The first is that capital for development will not be forthcoming in the volume and of the kind that will effectively achieve the desired purpose unless political, monetary and economic conditions of stability are reasonably assured. The second is that, even for limited amounts of foreign investment, transfer of interest and repayment of capital will be exceedingly difficult if multilateral trade and currency convertibility cannot be restored. The extent to which such transfers can be made bilaterally—by direct payment from debtor to creditor countries—is limited by the trading possibilities between them. As far as the United States is concerned, these are small—and the United States is the chief potential source of capital.

Trade and the Circuit of Payments

The returns from past investment were transferred to creditor countries by a roundabout trading process in which the intermediary countries played an essential role. This process has been analyzed by the international civil servants in the secretariats of the League of Nations and the United Nations. It can be shown graphically, as in the diagram reproduced on the opposite page.

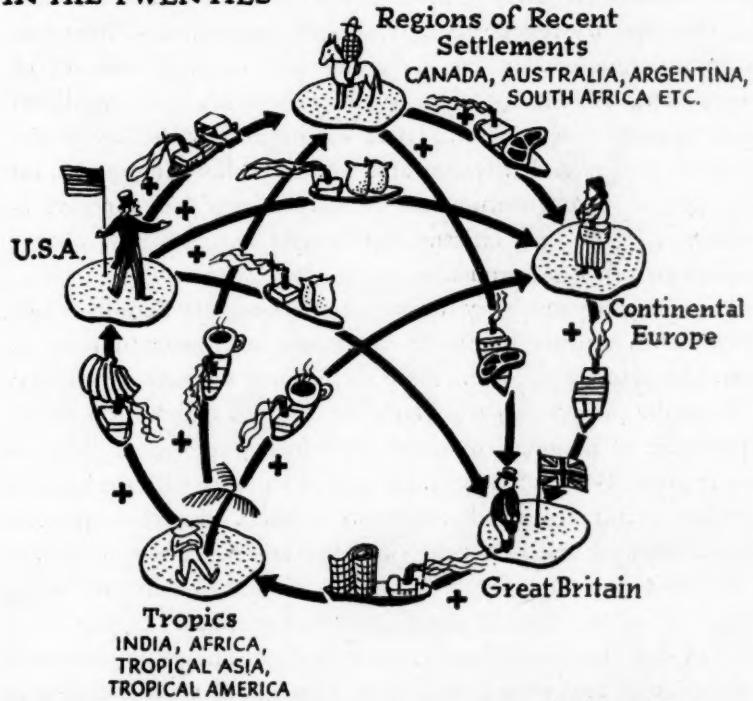
The trading areas are arranged in a pattern in which each area had a surplus of exports over imports to every area to its right. Trade flowed clockwise and payments counter-clockwise.

Now that the United States, rather than Britain, is the greatest creditor country, the pattern must be rearranged. Rearrangement is greatly complicated by the fact that the United States is not a free-trade country and is particularly resistant to imports of the kind of goods produced in the regions of recent settlement which were highly developed in the past. The temperate zone countries of the southern hemisphere—the British dominions and Latin America—find it difficult to market their exports here, and Britain still needs them desperately. The returns from European investments in the tropics were transferred by exports, of which the United States took a large share. In turn the United States had an export surplus with most of the rest of the world.

Pattern for Payment

Since it is so difficult to conceive of the United States accepting in the near future a growing excess of imports over exports, the returns from any investments American citizens may make in economic development must be transferred by a similar roundabout trading process. The sawmill being erected in the Cameroons will not export lumber to the United States. The return from such investments must eventually reach the United States in the form of exports from other countries which buy the lumber. This is what is meant by multilateral trade. But that trade

THE CIRCUIT OF WORLD TRADE
IN THE TWENTIES



✚ signifies "favorable" balances of trade. Thus trade flowed clockwise. Payments for these could be made because the circuit was closed. In the thirties, however, some of the arrows were reversed and the system began to break down

GRAPHIC ASSOCIATES

must be free to expand. A large volume of investments involves the necessity of the creditor country ultimately accepting payment in the form of imports. The text which the investing country must constantly remember is: What must I do to be paid?

New Commercial Treaties

The gradual evolution of commercial treaties is a complicated story. But it is important to remember that the developing net-

work of such treaties in the nineteenth century came to constitute a substantial body of international law. The trading system of that century rested upon this legal foundation. There was substantial agreement on principles and upon procedures of settlement. A long list of cases and precedents had crystallized interpretations of this law. There was respect for the law on the part of traders and investors and what was more important, on the part of their governments. It was not necessary for governments to insure their citizens against risks arising from arbitrary action by other governments.

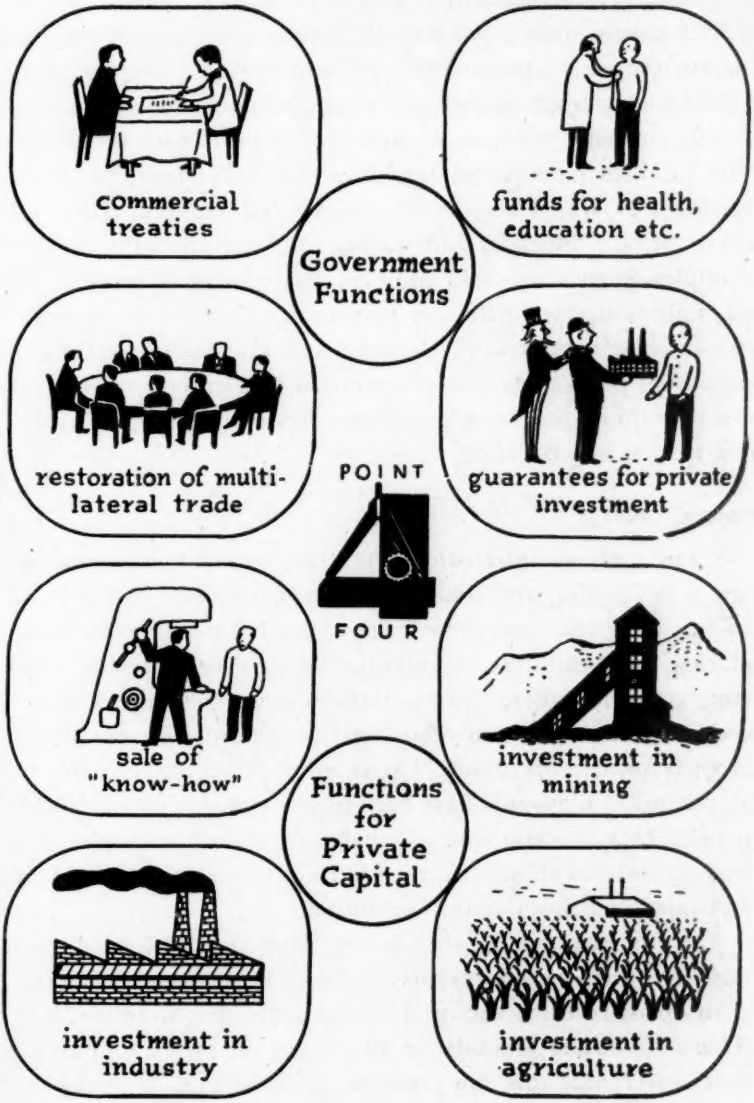
It is urgently necessary to renegotiate the treaty network. The nineteenth century treaties of commerce and navigation served an admirable purpose in their day. They embody much that should be preserved, particularly the detailed elaboration of the principle of national treatment, by which traders and investors were assured of their rights on a basis of equality with the citizens of the country in which they were trading. But circumstances have changed and new problems have arisen. Among these are double taxation, safeguards against confiscation or harassing regulation, assurance of equal rights in the transfer of profits.

On the other hand the borrowing countries have had some bad experiences and even greater fears of some of the consequences of debt. They are jealous of their national sovereignty and insist upon their right to safeguard themselves against foreign investors obtaining a privileged position as compared with nationals, against the exploitation of natural resources, against too great aggregation of economic power which may affect their political freedom. And they wish to ensure that industry shall be a means of training their citizens for technical and executive responsibilities.

Progress toward a Code

All these questions are negotiable. Attempts have been made by various organizations such as the International Chamber of

SOME ATTACKS ON THE PROBLEM



GRAPHIC ASSOCIATES

Commerce to work out draft clauses of possible treaties covering them. It is natural that most such attempts lean heavily in favor of the rights of creditors. The most active and confident leaders of such groups usually come from already developed countries. Indeed, the consciousness of their own weakness, inexperience and lack of bargaining skill is a considerable factor in the suspicious uncooperativeness of many underdeveloped countries. Most of them have passed legislation and enunciated plans of development which impose conditions that are not likely to attract foreign investors and traders. Yet private firms, as the examples given above will indicate, have found it possible to negotiate contracts satisfactory both to them and to the borrowers. In these contracts, which cover such questions as taxation, transfer of profits, freedom of operation and property rights, as well as training programs, precedents may be found upon which new treaties may be based.

Havana Charter

A new body of international practice, suited to the modern age, is developing and could be systematized. The best way to do this is by trial and error. The United States is already exploring the possibilities of negotiating up-to-date treaties with some countries where the possibilities seem greatest. A three-decker development is needed. Specific contracts for particular projects can be worked out. The essential principles thus arrived at, defined in terms that have been found workable, can be incorporated in a bilateral treaty. Finally, the broad principles of a trading code, with procedures for its interpretation, might be embodied in a multilateral convention.

The International Trade Charter negotiated at Havana, but not yet ratified, constitutes such a code. The attempt to elaborate it in detail revealed the complicated issues that were involved. There are strong grounds for advocating its ratification as the best compromise that can presently be arrived at. It would cre-

ate a forum in which commercial policy could be negotiated. Experience, notably of the International Monetary Fund, shows that the text of such a code need not be administered legalistically. Situations can be met as they arise. Administrative judgment is more important than strict interpretations of a text. But in the long run an effective code can be developed only gradually and out of practical experiment.

5. Pressures of Population

IN THE PAST ECONOMIC development has always led to population increase. It still does. The increased productivity which enlarges the limits of subsistence brings lower death rates, particularly of infants. The great growth of population comes from the progressive lowering of death rates. This poses a conundrum for which there is no easy answer. There will be little economic development unless sanitation, improved medical care and, above all else, improved nutrition liberate increased physical and mental energy. People suffering from malnutrition and preyed upon by hookworm, malaria and similar scourges are poor prospects for industrialization.

The major reason why it is difficult to answer the questions at the beginning of this book is the population conundrum, which has first to be answered. Productivity and living levels vary greatly from country to country largely because of differences in the ratio of numbers to resources. This affects all the elements of production. Too large numbers mean that poverty hinders education and technical training. Natural resources cannot be utilized effectively. Capital equipment cannot be accumulated. There is a vicious circle in which all these depressing factors reinforce each other.

Human Factor the Key

Clearly, the only sure place to start an upward cycle is with the people themselves. The human factor is the key to improvement. More food, better health, higher training, are the keys to productivity. But productivity will be dissipated in still greater numbers, unless in some manner control is achieved of the natural tendency to population increase. Inevitably there will be some increase which must continue over a rather prolonged period—perhaps a century.

The population history of the last couple of centuries is becoming clear to us. The tremendous increase in numbers of the Western European peoples and their offshoots overseas which accompanied the Industrial Revolution brought all the unoccupied grasslands of the temperate zone within their control and made them the economic and political masters of the whole world. In the latter nineteenth century, from about 1870 onwards, there were some signs that their increase was being brought under conscious control. Increased concern for social security has recently gone some way in promoting further population increase; but the hegemony of the white race is now challenged. There are no new frontier lands to bring under cultivation, and the colonial peoples demand control over their own resources.

The past development of those resources to feed factory towns of the dominant Europeans led to cycles of population increase in colonial areas which greatly complicate their economic development, now that they have achieved independence. The populations of Asia, the Near East and Africa have grown very fast in recent decades. With the breakdown of multilateral trade, these increased numbers are subjected to the crudest and harshest of the checks to population increase with which Malthus was concerned. War, famine and pestilence are loosed again.

But peace and economic development will release new cycles

of population increase. These cycles are cumulative. Increased survival in one generation means larger numbers from which further increases spring. This fact emphasizes the note upon which this little book has been keyed. Education and social change must be the most important factors in any program of economic development. They are necessary to start the process of self-improvement.

Revolution in Thought Necessary

But they are even more necessary if the resulting productivity is not to be swallowed up in providing a bare subsistence for more people. In the nineteenth century, the desire for higher living levels and better opportunities for their children gave the peoples of the Western world some measure of control over the birth rate. Death rates fell; but from about 1870 birth rates fell faster.

Unless the peoples of Asia and Africa follow this pattern, economic development will not improve their lot. There will in any case be a rather long period in which the race between productivity and population increase will be uncertain. The only way in which to make sure that productivity outstrips the survival rate is to use educational processes to reinforce the desire for improved living standards and so implant in the people for whom economic development is projected the desire to achieve these higher living levels by postponement of marriage, limitation of the birth rate within marriage and the provision of educational opportunities for their children.

Such proposals involve a revolution in their thinking translated into social reforms that run counter to traditional folkways. It is a vast undertaking in which success cannot be expected quickly or easily. Economic development, if it is to succeed, must be a slow process of remaking the social organization and aspirations of communities that for centuries have followed a pattern of behavior inherited from time immemorial.

Brazil: a Case Study

by Harold H. Hutcheson

CAUE PEAK IN THE Brazilian state of Minas Gerais rises 4,300 feet above sea level. It is literally a mountain of iron. The rock and boulders of other mountains are granite, limestone and similar materials, but the rock of Caue is almost pure iron. Eroded ravines are rusty from the rain. On the mountain's slopes, the town of Itabira—"shining rock"—has streets paved with iron cobblestones.

Caue is an example of some of the promises and problems of Brazil and other underdeveloped countries throughout the world. Caue is part of Brazil's rich mineral resources which include something like 22 per cent of the world's iron reserves—perhaps 15 billion tons of ore which, according to one guess, theoretically would allow Brazil to export 40 million tons of high-grade ore annually.

But before this mountain of iron can be transformed into refrigerators, automobiles and other things for everyday use, there are a host of questions to be answered. For Caue is 400 miles from the seaport of Victoria, the natural outlet for its ore. It is 240 mountainous miles north of the new Brazilian steel plant at Volta Redonda. The existing railway facilities are inadequate for its bulky output. Is it worth while—will it pay—to expand the existing mines and develop the railways? Will the

world most readily buy this iron in the form of ore? Or in the form of pig iron? Or in the form of Brazilian-made steel?

To answer these questions a host of other factors have to be taken into account. Brazil, although rich in iron, is poor in the quality of its coal resources; can coal be imported economically over thousands of miles of ocean to process the iron? Brazil's iron, although of high grade, is far from the sea; will lower-grade deposits in other countries—in Labrador, for example—prove a cheaper source for supplying the world's needs because their output does not have to be transported lengthy distances overland? Will the present Brazilian government and its successors carry out financial and political policies conducive to the exploitation of these mineral resources? Will Brazilians be adaptable to more mining towns, more blast furnaces, more railways —supplying the labor for these enterprises and drawing livelihood from them?

Caue and Point Four

Thus do the potentialities of one mountain peak demonstrate the possibilities and limitations, the promise and difficulty, of economic development in a particular country—as well as the possibilities and limitations of President Truman's Point Four program. The Brazilian economy is an excellent point of departure for studying Point Four, enabling a realistic consideration of the means available and the obstacles to be overcome in promoting economic and social advance.

Such an inquiry can be, and often is, highly fascinating. There may be justification for Carlyle's remark that economics is "the dismal science"; but surely this term hardly applies where the economist can point to a vast, unused capacity to produce goods and services and thereby brighten the daily life of many millions who have experienced only grinding poverty thus far. Truly, on the world economic front there is no greater challenge to statesmen than that of social and economic development.

Brazilians have every reason to rejoice over the newly found interest in problems of the less developed areas. Theirs is a country larger in area than the United States—a nation of 3.29 million square miles, inhabited by only 40 million people in 1940. Although there are innumerable manifestations of retarded development—a short average life span, a high incidence of disease and illiteracy, underemployment and misuse of resources (reflected in low per worker productivity and income), monetary and fiscal instability and so on—Brazil does have a sizeable potential for increased production, investment and consumption.

The Abbink Report

These and other revealing facts are convincingly set forth in the report of the Joint Brazilian-United States Technical Commission, which completed on February 7, 1949 a five-month intensive survey of resources and development problems. Headed by Mr. John Abbink, a New York businessman prominent in foreign trade circles, the American members (aided by a staff of specialists) fully demonstrated one immeasurable gain that may be expected from the Point Four project—namely, the use of such missions to aid underdeveloped countries in surveying their capacity to achieve higher living standards.

Seeking to promote more effective use of resources, the national government of Brazil has under consideration a comprehensive program for social and economic development. The SALTE Plan, as it is called, was drawn up in the early part of 1948; it consists of several projects to be carried out during a five-year period, with the government doing most of the internal financing. Particular attention is given to improvements in education, health and sanitation, as well as agricultural production and distribution. Deficiencies in these sectors of the economy must receive priority, for they constitute the basic condition for sound, sustained industrial growth.

Already Brazil leads other Latin American republics as a producer of manufactured goods, and there are ample opportunities for further expansion of output. Such progress, however, depends on a balanced development of productive capacity and, above all, on necessary social improvements. Acquired resources —health, sanitation, technology (know-how) and capital goods —are to be steadily increased so that natural resources can be systematically explored and exploited.

Coffee and Depleted Soil

With respect to land, water-power, minerals and other natural resources, the country is well endowed. As in the United States, there is a wide range of climate and soils. According to the 1940 census, however, only 4 per cent of the total land area was devoted to cultivated crops.

What is more, there is a considerable production of coffee which has resulted in a serious loss of soil fertility. The practice of extensive cultivation, whereby farmers are always moving on to "new ground" as the yield of the old drops, is widespread in Brazil. This type of farming is one characteristic of a national economy that is not fully developed. The shifting of cultivation to more distant plots of land signifies wasted resources. It also intensifies the already acute transportation problem.

Given modern scientific methods, Brazilian farmers are capable of greatly expanding and diversifying their output. But they will also need much more capital in the form both of credits and implements. In 1947, for example, not more than 100,000 ploughs were in use, and most of these were of primitive design. There is, in fact, little mechanization, without which increased productivity is well-nigh impossible.

Forest and Mineral Resources

Similar observations may be made with reference to forest, mineral, petroleum, water power, fisheries and other primary re-

sources. In all these categories, there are rich reserves awaiting proper development. Experts agree that Brazil can greatly expand the output of pulp, paper, timber and forest products in general. In addition to high-grade iron ore, deposits of manganese and many more minerals are enormous. Moreover, there are ample coal supplies, although the quality is below average. The other major sources of power—petroleum and hydroelectric potential—are exceptionally good, and await the necessary application of capital and know-how. Marine resources, especially the fisheries, have only been slightly developed. In short, Brazil is unusually well-favored in its varied and extensive natural wealth.

The fact that little progress has been made so far in raising the per capita real income is indicative, therefore, of a lack of skill and ingenuity in translating into reality the great economic potential of the country, rather than any shortage of essential resources. There are, of course, many reasons why progress has been retarded. These are clearly revealed in the report of the Abbink mission.

A Speculation Economy

A most characteristic and far-reaching adverse factor is the emphasis on speculation in the Brazilian economy. Reflecting the incomplete development of "industrial capitalism," those people with funds available for investment favor urban and rural real estate transactions, including construction of many apartment and office buildings. Little interest is shown in constructing new and expanded facilities to produce consumer and producer goods. When such investments are made, the aim nearly always is a quick return—"high unit profits."

A similar attitude obtains in retailing and wholesaling, where there is an inordinate number of middlemen. Modern industrial capitalism, with its sizeable outlays on inventories, machinery and plant, and mass production for a mass market (with low unit profits per unit of output and sales), remains a rather dis-

tant goal. But until this productive capacity is created, no marked improvement of real income is possible. Well aware of this fact, the Brazilian government, national and local, is seeking to arouse popular interest in the economic prospects of the country and thus stimulate a more productive use of the rich resources available.

Currently, labor and capital are not only in short supply but also fully employed; moreover, gold and dollar reserves, greatly increased during the war, have since been much reduced in financing imports that contributed little to improved productive capacity. Under the circumstances, every effort is needed to achieve maximum production from the existing industrial plant and labor force, since Brazil has no idle factors of production. Failure in this direction will bring further credit and price inflation and thus an unsound, distorted pattern of development. Experts have rightly noted that in Brazil capital formation through the inflationary process—forced saving as real income declines—will affect most severely the small middle class, consisting of technicians, educators and others whose role in economic development is of primary significance.

Financial Requirements

Monetary instability will also endanger the sustained inflow of foreign capital and technology that are indispensable if there is to be accelerated development. Adequate and effective mobilization of finances, public and private, must obtain. To reach this objective, the mission recommended measures to improve the marketing mechanism for both private and government securities. Savings of individuals and business, which average around 10 per cent of national income, must be fully drawn on and directed into truly productive channels. At the same time, government outlays for development and for other purposes should be financed as much as possible out of tax receipts. Thus, there is need for major reforms in the fiscal system.

Although a large part of the development process consists of applying domestic resources, financial and otherwise, the borrowed money from abroad is nevertheless crucially important. Foreign assistance in final analysis means drawing on the advanced know-how of those countries which already enjoy a large and efficient productive capacity; failure to do so spells delays and frustrations, a certain measure of which is to be expected even under the most favorable conditions of international cooperation.

Producers in the United States and Western Europe, however, can share their techniques and equipment with those in less developed countries and thereby step up overseas productivity with gains to all concerned. What the less developed countries have in the way of an economic potential must first be ascertained by a careful survey, such as the one that has been made for Brazil with United States assistance.

The all-important consideration is to set in motion the machinery of economic development, which is in fact the aim of the Point Four proposals. Progress at first will necessarily be slow, as was true of this country; but before long the tempo will increase, and then what was yesterday a dim promise will become a happy reality tomorrow.

SUGGESTED READING

Foreign Policy Association publications related to the Point Four program include:

Harold H. Hutcheson, "Problems of the Underdeveloped Areas—I and II" and "Government and Capital in Point Four," *Foreign Policy Reports,* September 15 and October 1, 1948 and June 1, 1949.

C. Lester Walker, "Man and Food: The Lost Equation?," *Headline Series* No. 73, January-February 1949.

State Department publications include:

The Point Four Program (Department of State Publication 3347) December 1949, a graphically illustrated pamphlet.

Frequent articles in *The Department of State Bulletin* and *The Record.*

United Nations material includes:

Technical Assistance for Economic Development, May 1949, a 329-page survey by the Secretary General and the heads of the specialized agencies presenting a number of detailed projects.

Other technical studies on such subjects as exports and imports of the underdeveloped areas, methods of financing various programs and so forth.

Some recent magazine articles:

J. B. Condliffe, "The Key to Economic Development," *Survey,* April 1949.

Milo Perkins, "What We *Can* Do Under Point Four," *Harper's,* December 1949.

Willard Thorp, "Spelling Out Point 4," *United Nations World,* May 1949.

Professor Condliffe's new book, *The Commerce of Nations* (New York, W. W. Norton, 1950), surveys the general problems of world trade and thus provides useful background.

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Western European Union

Vera M. Dean, Kenneth Galbraith